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THE EFFECTS OF MICROFINANCE INSTITUTIONS' ENTERPRISE DEVELOPMENT SERVICES ON THE BEHAVIOUR OF YOUNG ENTREPRENEURS IN NIGERIA

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Abstract
Microfinance has evolved as an economic development approach intended to benefit young entrepreneurs around the world. In addition to financial intermediation services, some Microfinance Institutions (MFIs) provide social intermediation services such as formation of co-operative societies, development of self-confidence and skills training in financial literacy and marketing among members of a group. Ordinary financial intermediation is not usually sufficient to assist young entrepreneurs grow their businesses. MFIs have to create mechanisms to bridge gaps created by poverty, illiteracy, and remoteness. Local businesses must be built and nature, and the skills and confidence of young entrepreneurs must be developed. This study essentially focused on the impact of MFIs in developing the entrepreneurial mindset of young people in Nigeria.

Keyword: *Microfinance institutions, Enterprise development, Entrepreneurs*

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Background to the Study

The onset of industrialization in the 17th century brought the importance of entrepreneurs as a separate and vital factor of production. The industrial revolution also provided a special recognition to the entrepreneur. The entrepreneur was and is still seen as a key element in generating investment opportunities for ne industries. Microfinance Institutions (MFIs) offer entrepreneurs a variety of products and services. Aside from financial services MFIs provide enterprise development services such as skills training and basic business training (Ledgerwood, 2011). These include bookkeeping, marketing, production and literacy training.

However, due to the nature of MFI's target clients young entrepreneurs without tangible assets, who often live in remote areas and may be illiterates, MFIs cannot operate like most formal financial institutions. According to Biswas, Arun, and Vijay (1997), formal financial institutions do not generally regard the tiny businesses run by young entrepreneurs as attractive investment. This means that young and up-coming entrepreneurs face formidable barriers in gaining access to mainstream financial service institutions (Bennett, 1994). Ordinary financial intermediation is not usually enough to help them participate and therefore MFIs have to create mechanisms to bridge the gaps created by poverty, illiteracy, and remoteness (Ledgerwood, 2011). This study seeks to investigate the influence of MFIs on the behaviour of young entrepreneurs in Nigeria.

Literature Review and Theoretical Framework

There appears to be no research work supporting a single psychological model of entrepreneurship. However, behavioural scientists and entrepreneur share the opinion that the eventual success of an entrepreneurial venture depends on the talent and behaviour of the entrepreneur (Churchill, 1983).

According to Atkinson (1958) whose theory of psychological motivation is a generally accepted part of the literature on entrepreneurial behaviour, people are motivated by three principal needs. There are:

i. The need for achievement
ii. The need for power
iii. The need for affiliation

The author further went on to explain the need for achievement as the need to excel and measure personal accomplishment. The need for power is the need to influence others, while the need for affiliation has to do with the goal of building a warn relationship with someone else such that will allow for mutual friendship (Atkinson and Feather, 1966).

Other research focused on the common attitudes and behaviour of entrepreneurs. Churchill (1983) observed a relationship between attitudes and behaviours of successful entrepreneurs and various stages of company development. Some scholars believe that entrepreneurs are unique individuals; for instance, smith and John (1984) found that “what is characteristic is not so much an overall type as a successful growth oriented entrepreneurial type” it is the enterprise builders who are distinctive.

In 1991, a study of 118 entrepreneurs revealed that “those who like to plan are much more likely to be in the survival group than those who do not” (John, Norman and Jeffrey, 1991). Clearly, the get rich quick entrepreneurs are not the enterprise builders, nor are they the planners of successful entrepreneurial ventures.

Characteristics of a Successful Entrepreneur

The features of entrepreneur as an individual are essential contributory ingredients to the success of an enterprise. McClelland stated the qualities of a successful entrepreneur as an individual with technical competence, risk taking, high initiative, good judgment, and intelligence to analyze and solve problems, leadership qualities, confidence, positive attitude, high level of energy, creativeness, honesty, integrity, emotional stability and fairness (Badi and Badi, 2008).

Flexibility, good social behaviour, open mind and desire to take responsibilities fit into the qualities of a true entrepreneur. Aside from the functional qualities, the entrepreneur must possess a broad personality contour that will enhance his ability to develop initiative and drive. Badi and Badi (2008) are of the view that the entrepreneur should not only be interested in building a team culture amongst his people, he should also be emotionally attached to that project which he conceives. An entrepreneur is an innovator who brings new products or services into the economy. Schumpeter (1938) describes entrepreneurship as “a creative activity”. Innovation therefore, lies at the heart of the entrepreneurial process and is a means to the exploitation of opportunity (Agboola, 2006). Innovation goes beyond invention.

Entrepreneurially, it involves the discovery of a new and better way of doing things (Gakure, 2010). It will be appropriate to briefly examine some theories that can explain the influence of microfinance institutions (MFIs) on the activities of young entrepreneurs.

Agency Theory

One of the objectives of corporate governance is the reduction of potential conflicts between the principal and agent (Ashbaugh, 2004). The principal provides the finance and the agents task is to manage the finance in an efficient manner to that maximum returns are provided for the principal. These agency conflict can lead to agency cost in terms of monetary loss (Meckling, 1976). Good governance practice can be used to improve economic efficiency and confidence building on the part of investors (Sanusi, 2010). Microfinance institutions can use good corporate governance mechanisms to improve profitability.

Stewardship Theory

The stewardship model supports the view that managers are good stewards of the firms resources (Geogious, 2010). It asserts that if managers are left alone they will act responsibly and will effectively manage the assets they control (Donaldson and Davis, 1991). In contrast to the agency model, the stewardship model implies that there is no need for corporate governance mechanisms to be implemented in order to obtain financial benefits.

Portfolio Theory

According to Kurfi (1003) portfolio is a combination of investment in various assets or securities. Investors are generally assumed to be risk averse as such they try as much possible to have a well diversified portfolio in order to optimize returns and minimize risks (Pandey, 1999).Microfinance institutions can use portfolio management strategies to diversify risk and maximize return on investment.

Schumpeter Theory of Innovation

Entrepreneurs create opportunities for new profits through innovation (Schumpeter, 1928). Also, Schumpeter (1938) argued that the role of entrepreneurship and seeking out of opportunities for novel value generating activities would expand and transform the circular flow of income. Schumpeter (1928, 1939) emphasized that innovation is a perpetual gale of creative destruction that were required as driving forces for growth rates. Microfinance Banks (MFBs) as well as small and medium enterprises can use innovation to improve performance.

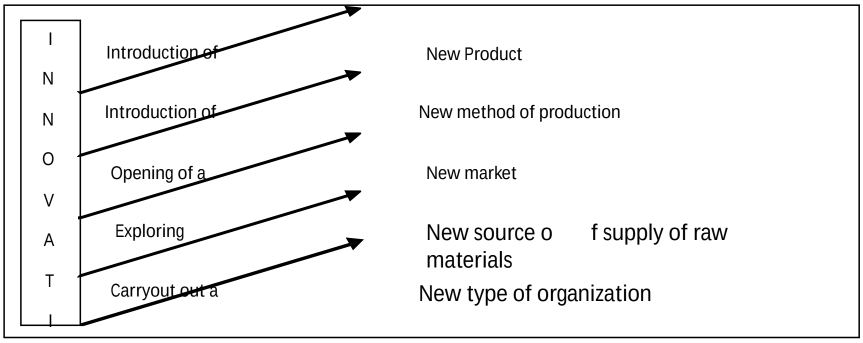

Figure 1: *Schumpeter's view of innovation: adapted from Badi and Badi (2006)*

Schumpeter's view of an entrepreneur is basically that of an innovator who introduces new combinations, different forms of innovations are as given if figure 1. This study will try to establish the above facts.

Statement of the Problem

The Microfinance Institutions (MFIs) have faced major crisis in various parts of the world. The crisis experienced in the MFI sector in Nigeria in 2005, Nicaragua in 2008, India in 2010, Pakistan in 2010, Kolar in 2009 and in Bosnia and Herzegovina in 2009 all resulted in massive loan default by clients and eventual closure of some MFIs (Waithaka, Gakure and Wanjau, 2013). The impact of weak corporate governance practices in microfinance banks can be seen in decreased profit levels, high staff turnover and high capital expenditure (Wolfgang, 2003). The Nigerian microfinance banks policy (CBN, 2005) was targeted at creating environment of financial inclusion to boost capacity of Small and Medium Enterprises (SMEs) and young entrepreneurs. This was expected to contribute to economic growth through job creation which would lead to improved standard of living and poverty reduction (NDIC, 2010).

In Nigeria, microfinance banks are faced with problems of lack of savings and capital formation (Abereijo and Fayomi, 2005). These challenges have resulted in microfinance banks having greater difficulty in serving entrepreneurs and other customers. As observed by Murdoch (2005), microfinance banks in Nigeria find it difficult to serve Small and Medium Enterprises (SMEs) because of high perceived risk, high transaction costs and lack of experienced personnel. The National Deposit Insurance Corporation (NDIC 2011) revealed that in 2010, out of 8,380 applications for loans received from Small and Medium Enterprises (SMEs) for a total of 559.13 million naira, the microfinance banks disbursed only 18 percent for a total of N46.66 million naira.

In 2011, the NDIC in collaboration with the CBN conducted target examination of all MFBs in Nigeria. The CBN/NDIC Examiners' findings revealed that many of the institutions were found to be incapable of honouring their obligations to their customers as and when due. Some were even found to have actually closed shop. Following the revelation from the CBN/NDIC target examination 224 of the MFBs were terminally distressed or technically insolvent, the operating licenses of 103 MFBs were revoked on September 24, 2010 while 121 others were given a deadline of six (6) months by the CBN to recapitalize or face possible liquidation. The 103 MFBs whose licenses were revoked comprised 79 converted community banks and 24 newly licensed MFBs.

Study Objectives

The overall objective of this study is to investigate the effects of microfinance institutions enterprise development services on the behaviour of young entrepreneurs in Nigeria.

Specifically, the study seeks to:

i. Establish the effects of MFIs' marketing services on the behaviour of young entrepreneurs in Nigeria; and
ii. Examine the effect of MFIs' business training services on the behaviour of young entrepreneurs in Nigeria.

Hypothesis

H_0: MFIs enterprise development services have no effect on the behaviour of youth entrepreneurs

H1: MFIs enterprise development services have effect on the behaviour of youth entrepreneurs.

Conceptual Framework

Some Microfinance Institutions (MFIs) provide enterprise development services such as business training, marketing and technology services, skills development and subsector analysis. These services can improve the ability of young entrepreneurs to operate their enterprises either directly or indirectly (Ledgerwood, 2011). The conceptual diagram below demonstrates the theoretical relationship of the variables in this study.

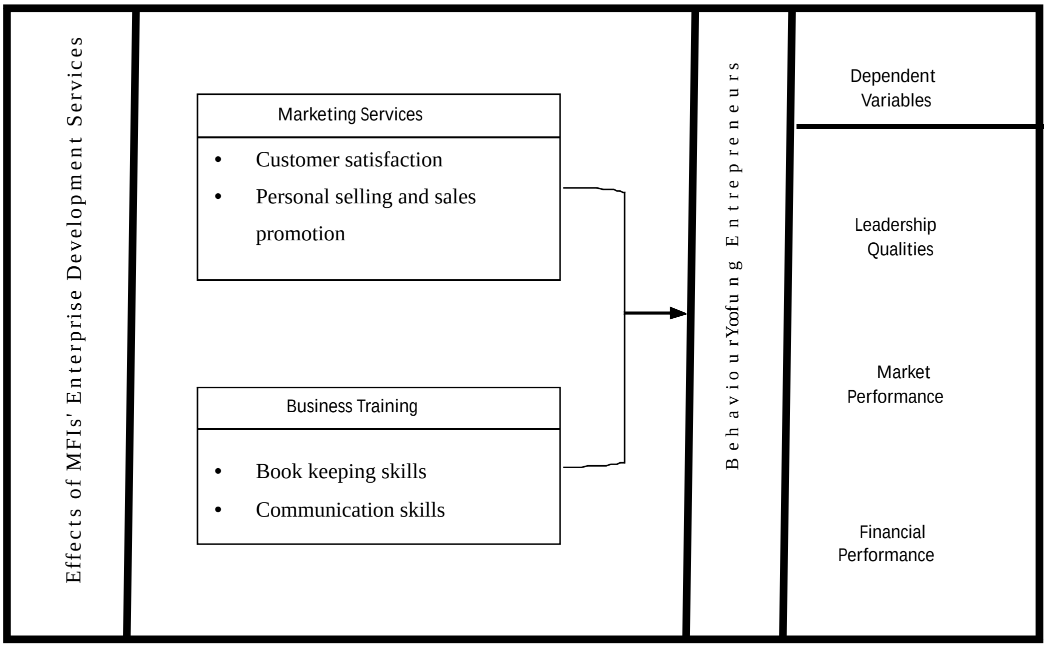

Figure 2: *Conceptual Framework*

Methodology

The study adopted survey design. This approach was used because of its suitability, as the variables under study can and were observed without attempts to control or manipulate them. The population of the study comprised all the customers of 866 Microfinance Banks in the country (NDIC, 2010). A multi-stage random sampling method was used to select those that participated. In the first stage the population was delimited by Nigeria's six (6) geo-political zones. A state was randomly selected from each of the six (6) geo-political zones. Their state capitals were thus purposively chosen in the second stage. The states that were selected include Abia, Bayelsa, Oyo, Benue, Kaduna and Niger. One hundred and twenty two (122) participants responded to the questionnaires in each selected state. It is however noteworthy that out of 732 that were administered with questionnaires, 721 participants successfully completed and returned accordingly. Chi-square statistical means was used to analyzed the data.

Results and Discussions

Observed Table I:

Variables	Favourable	Unfavourable	Total
Marketing services	691	30	721
Training services	231	490	721
Total	922	520	1442

Expected Table II:

Variables	Favourable	Unfavourable
Marketing services	461	26
Training services	116	26

Contingency Table III:

Observed (O)	Expected (E)	O-E	(O-E)2
691	461	230	0.499
231	116	115	0.991
30	26	4	0.154
490	26	464	17.846
			x^2 = 19.4904

?F = 1
$x = 0.05$
$x^2 t_{0.05} = 5.84146$
$x^2 c = 19.4904$

Decision Rule: Reject H_0 when $x^2 c > x^2 t$

From the contingency table III above, it is clear that the calculated vale of the chi-square (19.4904) is greater than the critical value of 3.84146 at 5% significant level and 1 degree of freedom. Therefore, we reject the H_0.

Outstanding entrepreneurs go out of their way to keep important customers satisfied. The results confirm most studies conclusions that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better performance. Smart entrepreneurs aim to delight customers by promising only what they can deliver, then they go on to deliver more than they promise. The respondent's attestation that MFI's marketing services have positive effects on the behaviour of young entrepreneurs further confirms that delighted customers not only make repeat purchase, they became willing partners and “customer evangelists”.

Although, respondents scored MFIs business training services low, the importance of book keeping skills as well as communication skills to young entrepreneurs cannot be over-emphasized. MFIs will do well to encourage young entrepreneurs to develop 'powerful' and persuasive communication skills and maintain proper accounting records.

Conclusion and Recommendations

Microfinance institutions' enterprise development services are non-financial services that assist young entrepreneurs. They include business training, marketing and technology services, skills development and subsector analysis. The degree to which an MFI provides each of these services depends on whether it takes a "minimalist" or "integrated" approach. There has been some debate in microfinance field on whether MFIs should offer only financial services (minimalist) or both financial and other intermediation services integrated. Should an MFI adopt the integrated approach, if should take cognizance of the following:

i. Providing non-financial services are distinct from providing financial services and can sometimes lead to conflict of objectives.
ii. MFIs offering many services should identify and control costs related to each service.
iii. Non-financial services attract finances for sustainability. MFIs should budget specifically for non-financial services
iv. Book-keeping and internal controls systems should be strengthened to detect errors and defalcations.
v. Government should assist in providing infrastructures (such as electricity) that will encourage entrepreneurial activities.

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